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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 001009

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TAGS: PREL PGOV MARR ETRD MOPS IN

SUBJECT: AMBASSADOR PUSHES FOR DEFENSE SALES AND FOUNDATIONAL AGREEMENTS WITH DEFENSE MINISTER ANTONY

Classified By: Ambassador David Mulford for Reasons 1.4 (B, D)

¶1. (C) Summary: In a February 27 call on Minister of Defense A.K. Antony, the Ambassador:

-- emphasized the commitment the USG and American companies have demonstrated toward India's defense trade;
-- pressed for a level playing field for American defense companies seeking business in India;
-- pointed out the benefits for India to consider life cycle costs in making acquisition decisions;
-- pushed for finality in pending operational issues, such as agreements on CISMOA, LSA, and crew lists; and
-- stressed the need for transparency in India's procurement system.

Antony:

-- assured the Ambassador that India is consciously seeking closer relations with the U.S., including military-military relations, and that there will be no discrimination toward American companies seeking to do business here;
-- claimed India's vast bureaucracy and democratic system slowed its decision making process, however, agreements on CISMOA, LSA and crew lists were near completion; and
-- said the RFP for the MRCA deal has been held up as the GOI considers the issue of life cycle costs. End Summary.

Buy American

¶ 12. (C) Ambassador called on Indian Defense Minister A.K. Antony on February 27 to discuss a broad range of pending issues and to press for progress in American defense sales to India. Noting the large presence of the USG and American companies at Aero India 2007, in addition to the growing number and sophistication of bilateral military-to-military exercises, the Ambassador said it was important for India to understand the enthusiasm and commitment America is making toward a deeper security relationship. Using the recent Letter of Request from India for special forces aircraft as an example, and noting that the C-130J which India is seeking is going through the normal clearance procedures before the U.S. is able to respond with a Letter of Offer and Acceptance proposal, the Ambassador said the U.S. and India need to make the effort to get our two very different procurement systems to work more smoothly together. The Ambassador then emphasized the importance of considering life cycle costs (LCC) when making procurement decisions, noting some countries artificially lower acquisition costs in their bids with products that actually are more expensive in the long run. He asked DefMin Antony if the Ministry of Defense would be using life cycle costs in determining future large-scale procurements.

Deep Relations, And A Promise Of A Level Playing Field

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¶ 13. (C) Antony acknowledged the amelioration in bilateral relations in recent years, and assured the Ambassador that India is consciously seeking closer relations with the U.S., including military-to-military relations. He affirmed he viewed the 2005 Defense Framework Agreement as the basis of our defense relationship, but added that implementation of some of the operational aspects of the Agreement can be slowed by India's complex bureaucracy and democratic system. Antony stated India will not discriminate against American companies, as it may have in the past, adding "Indo-U.S. defense cooperation has become a reality." He referred to India's Defense Procurement Policy of 2006 as the policy which binds his government to a transparent procurement system, which includes an integrity pact and a rule to use global tenders whenever practicable. Responding to the question on life cycle costs, Antony intimated that the reason the Request for Proposals (RFP) for the 126 Multi-Role Combat Aircraft the Indian Air Force was seeking had been delayed was indeed because MOD was considering if and how life cycle costs would be included in the proposal. "It is only because of this debate on how to calculate life cycle costs, which is a new development for us, that we have not finalized the RFP," he said. The Ambassador stressed the importance to American companies that they start to win some defense contract bids, as long delays and losses to competitors serve as a disincentive to remain committed here.

Let's Finish Long Overdue Business

¶ 14. (C) Referring to the need to implement operational aspects of the Defense Framework Agreement, the Ambassador asked for Antony's assistance in bringing a conclusion to several issues which have been pending for years, particularly the Logistics Services Agreement (LSA), the Communications and Intelligence Security Memorandum of Agreement (CISMOA) and the crew list/sovereign immunity issue. Addressing these issues now would avoid them becoming problematic in the future, the Ambassador stated, as was the case when ship visits in the past were canceled over the crew list issue remaining unresolved. Antony was joined by Defense Secretary Shekhar Dutt and Director General for Acquisitions Shilabhadra Banerjee, and all three asserted that the issues

the Ambassador was referring to were working their way through India's labyrinth system and were "in its final stage" (Antony) and "will go to the cabinet (for final approval) very soon" (Dutt).

Comment

¶5. (C) As he had done in his initial meeting with the Ambassador in November, when he had just assumed the appointment as Defense Minister, Antony was most animated and agreeable when the Ambassador was describing the probity of the American business system. Transparency and a clean image is clearly important to Antony, who went on at length about the inherent transparency of the 2006 Defense Procurement

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Policy. It was reassuring to hear that life cycle costs are being so carefully considered in the MRCA RFP, but we noted Antony would only go as far as saying they are being considered -- and not that they are necessarily being included. Still, the timing is opportune; Boeing and Lockheed reps on the ground in New Delhi say that they are planning to push in the next few days not only for LCC inclusion in the RFP, but also for wording that could be advantageous to American products. Finally, while reassurances of LSA, CISMOA and crew lists being in the "final" stages are welcome, we've been hearing that for months, and while we'll keep pushing at every opportunity, we will believe it when we see it.

MULFORD